

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 ICA-20 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00

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FM AMEMBASSY SANA

TO SECSTATE WASHDC 4413

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E.O. 11652: NA

TAGS: EFIN, YE

SUBJECT: YEMENIS DEBAT MERITS OF RETAINING DOLAR-RIAL LINK

1. THE BASIC PROBLEMS AND ADVANTAGES FOR YEMEN IN CONTINUING TO PEG THE RIAL AT 4.5 TO THE US DOLLAR WERE SET FORTH IN 77 SANA A-9 OF APRIL 23, 1977 WHICH DISCUSSED THE COUNTRY'S FISCAL AND MONETARY DILEMMAS. TWO WELL PLACED OFFICIALS IN YARG HAVE RECENTLY OFFERED FURTHER VIEWS ON THE SUBJECT.

2. UN EXPERT WHO HOLDS INFLUENTIAL POSITION IN YARG TOLD EMBOFF APRIL 9 THAT YEMEN IS MAKING COSTLY MISTAKE BY CONTINUING TO PEG YEMENI RIAL AT LONG HELD RATE OF RMT TO US DOLLAR. WHILE US WILL EVENTUALLY DERIVE EXPORT ADVANTAGE AS RESULT OF EUROPEAN CURRENCIES INCREASING VALUE AGAINST DOLLAR YEMEN EXPORTS ALMOST NOTHING, BUT IS VORACIOUS IMPORTER. FURTHERMORE, YEMEN IMPORTS FAR MORE FROM EUROPE AND JAPAN THAN FROM US, WHOSE SHARE OF YEMEN IMPORTS ONLY ABOUT SIX PERCENT. (COMMENT: TRUE.) THUS, A US DOLLAR PULLS RIAL DOWN WITH IT VIS-A-VIS EUROPEAN CURRENCIES AND YEN, COST OF YEMEN'S IMPORTS RISES COMMENSURATELY, AND FUELS INFLATION. OFFICIAL ESTIMATED THAT AS MUCH AS ONE THIRD

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TO ONE HALF OF YEMEN'S 35 PERCENT INFLATION DUE TO UNNECESSARY HIGHER COSTS ADMITTEDLY INCREASING IMPORTS.

3. OFFICIAL SAID HE RECOMMENDED THAT YARG SHOULD FOLLOW SAUDIS IN ALLOWING RIAL TO INCREASE MODERATELY IN VALUE AGAINST DOLLAR AS ONLY SANE AND RESPONSIBLE POLICY. HE ASKED RHETORICALLY, WHAT ADVANTAGE DOES

US DERIVE FROM HAVING RIAL PEGGED TO DOLLAR THAT COULD
COMPENSATE FOR DAMAGE DONE TO YEMENI ECONOMY?

4. TAKING MUCH MORE RELAXED STANCE, YEMENI ADVISOR TO
CENTRAL BANK GOVERNOR TOLD EMBOFF THAT NO MORE THAN 10 PER-
CENT OF YEMEN'S 40 PERCENT (I.E. ONE FORTH) INFLATION
SHOULD BE CONSIDERED IMPORTED INFLATION. REMAINDER
DUE TO INTERNAL DEMAND OF ECONOMY. THE RIAL'S PROBLEM
IS THAR WHILE IT IS A STRONG CURRENCY OUTSIDE YEMEN'S
BORDERS IT HAS LITTLE PURCHASING POWER INSIDE THE
COUNTRY.

5. POINTING TO SMALL STAFF AROUND HIM, THE CENTRAL
BANK OFFICIAL SAID YARG HAS NO ABILITY TO MONITOR
DAILY CHANGES IN VALUE OF A RIAL WHICH WOULD FLOAT
AGAINST THE DOLLAR. FOR CONVENIENCE IF NOTHING ELSE,
HE SAID YEMEN SHOULD RETAIN THE RIAL-DOLLAR TIE. THE
CENTRAL BANK RECEIVED MORE THAN 90 PERCENT OF ITS
FOREIGN EXCHANGE (AS A RESULT OF REMITTANCES) IN
DOLLAR, AND WHILE IT DIVERSIFIES SLIGHTLY, IT HOLDS
MOST OF THOSE DOLLARS AS IT FOREIGN RESERVES. HE
NOTED THAT YEMEN WAS MAKING 8-8 1/2 PERCENT ON ITS
EURODOLLAR ACCOUNTS, AND HE SEEMED TO BE SATISFIED
WITH THAT RATE.

6. COMMENT: WE REALIZE THAT THE IMPACT OF
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YEMEN'S MONETARY POLICIES ON US DOLLAR IS QUITE
SMALL. NEVERTHELESS, YARG HAS OVER BILLION DOLLARS
(PROBABLY TO REACH 2 BILLION BY 1979) IN FOREIGN CURRENCY
RESERVES, WHICH SHOULD NOT BE IGNORED.
WOULD APPRECIATE ANY COMMENTS DEPARTMENT
(PERHAPS EB?) MIGHT HAVE ON VIEWS GIVEN ABOVE AND
SUGGESTIONS ON APPROPRIATE LINE TO TAKE WITH YEMENIS
REGARDING THE DOLLAR-RIAL SITUATION.
SCOTES

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